

**HESPERIA COMMUNITY LIBRARY
NEWAYGO COUNTY, MICHIGAN**

FINANCIAL STATEMENTS

JUNE 30, 2008

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HESPERIA COMMUNITY LIBRARY

Board Members

<u>Appointed Official</u>	<u>Position</u>
Scott DeBrot	President
Rebecca Gleason	Vice-President
Lynn Rumsey	Treasurer
Sara Kraley	Secretary
Dorothy Backus	Trustee
Sandy Sidock	Trustee
Rosemary Bayne	Trustee
Starr Gleason	Trustee

Administration

Elizabeth Nordin	Library Director
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Library Board
Hesperia Community Library
Newaygo County
Hesperia, MI 49421

Independent Auditor's Report

We have audited the accompanying financial statements of the Hesperia Community Library as of and for the year ended June 30, 2008 as listed in the accompanying table of contents. These financial statements are the responsibility of the Library's board. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free from material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hesperia Community Library as of June 30, 2008, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information listed in the table of contents as supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Hesperia Community Library. This information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The management's discussion and analysis included in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Hesperia Community Library. We did not examine this data and, accordingly, do not express an opinion thereon.

Hendon & Slate, P.C.

Hendon & Slate, P.C.
Certified Public Accountants
January 26, 2009



HESPERIA COMMUNITY LIBRARY

Management's Discussion and Analysis (MD&A) Year Ended June 30, 2008

Using this Annual Report

This annual report consists of three parts - *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Library:

Notes A through J of the financial statements include information on the Library's General Fund under the modified accrual method. These notes focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.

Note K of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full accrual method.

Note K provides both long-term and short-term information about the Library's overall financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short-term as well as what remains for future spending.

The *government-wide financial statement* columns provide both *long-term* and *short-term* information about the Library's *overall* financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short-term as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below contains key financial information in a condensed format:

	<u>6/30/2008</u>	<u>6/30/2007</u>
Current Assets	\$ 434,506	\$ 388,434
Noncurrent Assets	<u>1,388,280</u>	<u>1,431,464</u>
Total Assets	1,822,786	1,819,898
Long-Term Liabilities	1,160,000	1,225,000
Other Liabilities	<u>103,815</u>	<u>86,170</u>
Total Liabilities	<u>1,263,815</u>	<u>1,311,170</u>

Management's Discussion and Analysis (Continued)

Net Assets		
Invested in Capital Assets-Net of Debt	\$ 163,280	\$ 146,464
Restricted for Debt Service	52,851	25,300
Unrestricted	<u>342,840</u>	<u>336,964</u>
Total Net Assets	<u>\$ 558,971</u>	<u>\$ 508,728</u>
Revenue		
Property Taxes	\$ 245,299	\$ 199,954
Grants	28,048	16,192
Other	<u>65,148</u>	<u>65,148</u>
Total Revenues	333,588	281,294
Expenses		
Library Services	<u>283,344</u>	<u>273,130</u>
Change in Net Assets	<u>\$ 50,243</u>	<u>\$ 8,164</u>

The Library as a Whole

The Library's net assets increased by \$50,240 in 2008.

The Library's primary source of revenue is property taxes, which represent 74% & 71% of total revenues for 2008 and 2007 respectively. The library also continues to rely on penal fines, which are relatively unpredictable and are received after the budget is adopted, to provide operating income. Penal fines amounted to 11% & 15% of total revenues for the years ended June 30, 2008 and 2007 respectively.

Salaries and fringe benefits are a significant expense of the Library, representing 30% of total expenses for 2008 compared to 33% for 2007.

Depreciation expense for the current year represented 37% of the Library's total expenses for 2008 compared to 33% for 2007.

The library completed the Library of Michigan's Quality Services Assessment Checklist for the Enhanced Level of Achievement.

The Library completed the year without any major crisis in funding and was able to restore Wednesday onsite service hours. Damage to the exterior of the building in March, 2008 required extensive repairs. A driver backed his vehicle into the building when the library was closed. The library's video surveillance system captured the incident and the person responsible was apprehended and prosecuted. The damage was covered by insurance (minus the \$500 deductible).

Management's Discussion and Analysis (Continued)

Changes in Tax Base

The taxable value of the property in the Library district has increased:

2005	\$118,210,748
2006	\$126,207,863
2007	\$134,351,376

The Headlee Amendment keeps the library district from benefiting from the entire increase in taxable value. The library levied .7414 in 2007. The levy in 2008 will be .7414. The original amount was .75 mills.

Library's Budgetary Highlights

Over the course of the year, the Library Board amended the budget to take into account unexpected changes in the adopted budget. Revenues received from the penal fine distribution were higher than predicted but less than the previous year. Grants continue to be a significant source of income. \$46,874 was received in 2007-2008.

Capital Asset Administration

At the end of 2008, the library had \$1,979,929 invested in land, buildings, furniture and equipment, and library materials. The Library added \$62,511 in new equipment, building improvements and collection items during the current year.

Debt Administration

The library's debt is for the renovation and expansion of the library that took place in 2001-2002. The library has completed seven years of payments with 13 years remaining. The library levied 1.0841 in 2007 to make bond payments.

The library was notified by financial consultants on the 2001 bond sale, Stauder Barch, that the levy would have to be moved to summer taxes in 2008. This was to meet a state requirement regarding levies. The proposed levy was adjusted to meet the requirement. Township officials complained that the \$2.50 per parcel reimbursement from the school levy in July was at risk if the library's levy was added to the July tax bill. The State Treasury department ruled that the district library levy should remain on the December tax bill. The Library Board complied.

The library owed \$1,225,000 at the end of the 2007-2008 fiscal year. The final payment is in 2021. The library has no other debt.

Economic Factors, Next Years Budget and Rates

The Library's budget for 2008-2009 will be similar 2007-2008 final amended budget. The State of Michigan's financial challenges threaten reduction in the state aid to public libraries and library cooperatives. The Department of History, Arts, and Libraries is developing new rules that could be instituted as early as 2009. Those changes could impact staffing requirements and hours of operation in order to qualify for state aid grants. A more severe threat could be changes to library cooperative system. The Hesperia Community Library relies heavily of the Lakeland Library Cooperative for services that are shared with 44 other public libraries in West Michigan.

Revenues from property taxes remain the as the substantial source of income to operate the library. The current millage will expire in 2009.

Management's Discussion and Analysis (Continued)

Penal fine distribution from the counties has remained fairly constant. The libraries could consider asking the counties to make monthly distributions that would help in planning rather than waiting for the “mystery” check each July. The unpredictability of the penal fine distributions remains a troublesome issue in funding public libraries.

Grants projects funded by the Fremont Area Community Foundation continue to support collection development. The library’s endowment funds are being used for additional operating support. A distribution from the Hesperia Community Library Fund provided for the restoration of Wednesday onsite service hours beginning in April, 2008. The Marian Rumsey Fund continues to support the magazine and newspaper subscriptions. The Fremont Area Community Foundation’s support has created a vital community asset for the residents of the library district.

The library charges \$48 per year for services to nonresidents in an effort to protect services and assets for the residents of the library district.

Contacting the Library's Management

This financial report is intended to provide citizens, taxpayers, customers and investors with a general overview of the Library’s finances and to demonstrate the Library’s accountability for the resources it receives. If you have questions about this report or need additional information, contact

Library Director
Hesperia Community Library
80 S. Division Street
Hesperia, Michigan 49421

HESPERIA COMMUNITY LIBRARY

Governmental Funds Balance Sheet/Statement of Net Assets

June 30, 2008

	General Fund	Debt Service Fund	Total	Adjustments*	Statement of Activities
ASSETS					
Cash	\$ 345,981	\$ 50,553	\$ 396,534	\$ -	\$ 396,534
Due from Other Funds	-	2,298	2,298	(2,298)	-
Due from Other Governments	37,972	-	37,972	-	37,972
Land	-	-	-	120,000	120,000
Capital Assets, Net of Accumulated Depreciation	-	-	-	1,268,280	1,268,280
Total Assets	<u>\$ 383,953</u>	<u>\$ 52,851</u>	<u>\$ 436,804</u>	<u>\$ 1,385,982</u>	<u>\$ 1,822,786</u>
LIABILITIES & FUND EQUITY					
Liabilities					
Accounts Payable & Accrued Liabilities	\$ 6,176	\$ -	\$ 6,176	\$ -	\$ 6,176
Due to Other Funds	2,298	-	2,298	(2,298)	-
Bonds Payable, Due Within 1 Year	-	-	-	65,000	65,000
Deferred Revenue	32,639	-	32,639	-	32,639
Long-Term Liabilities					
Bonds Payable, Due After 1 Year	-	-	-	1,160,000	1,160,000
Total Liabilities	<u>41,113</u>	<u>-</u>	<u>41,113</u>	<u>1,222,702</u>	<u>1,263,815</u>
Fund Balance/Net Assets					
Fund Balances					
Unreserved, Undesignated	122,629	-	122,629	(122,629)	
Unreserved, Designated	220,211	-	220,211	(220,211)	
Unreserved, Reported in Capital Projects	-	-	-	-	
Unreserved, Reported in Debt Service	-	52,851	52,851	(52,851)	
Total Fund Balances	<u>342,840</u>	<u>52,851</u>	<u>395,691</u>	<u>(395,691)</u>	
Total Liabilities and Fund Balance	<u>\$ 383,953</u>	<u>\$ 52,851</u>	<u>\$ 436,804</u>	827,011	
Net Assets					
Invested in Capital Assets - Net of Related Debt				163,280	163,280
Restricted for Debt Service				52,851	52,851
Unrestricted				342,840	342,840
Total Net Assets				<u>\$ 558,971</u>	<u>\$ 558,971</u>

* Notes to the Financial Statements provide the details for main components of the adjustments.

HESPERIA COMMUNITY LIBRARY

Statement of Governmental Revenues, Expenditures and Changes in Fund Balance/Statement of Activities June 30, 2008

	General Fund	Debt Service Fund	Total	Adjustments*	Statement of Activities
REVENUE					
Local Sources					
Property Taxes	\$ 98,935	\$ 146,364	\$ 245,299	\$ -	\$ 245,299
Sales	842	-	842	-	842
Grants	28,048	-	28,048	-	28,048
Penal Fines	37,972	-	37,972	-	37,972
Charges for Services	3,835	-	3,835	-	3,835
Interest	8,857	470	9,327	-	9,327
Donations & Memorials	3,115	-	3,115	-	3,115
Other	757	-	757	-	757
Total Local Sources	182,361	146,834	329,195	-	329,195
State Sources - State Aid	4,393	-	4,393	-	4,393
Total Revenue	186,754	146,834	333,588	-	333,588
EXPENDITURES					
Personnel Services	84,657	-	84,657	-	84,657
Capital Outlay	33,572	-	33,572	(62,514)	(28,942)
Consumable Supplies	6,325	-	6,325	-	6,325
Services & Charges	55,284	-	55,284	-	55,284
Miscellaneous	1,040	73	1,113	-	1,113
Depreciation	-	-	-	105,698	105,698
Debt Retirement	-	119,210	119,210	(60,000)	59,210
Total Expenditures	180,877	119,283	300,160	(16,816)	283,344
Excess Revenue Over (Under) Expenditures	5,876	27,551	33,427	16,816	50,243
Fund Balance/Net Assets - July 1, 2007	336,964	25,300	362,264	146,464	508,728
Fund Balance/Net Assets - June 30, 2008	\$ 342,840	\$ 52,851	395,691	\$ 163,280	\$ 558,971

* Notes to the Financial Statements provide the details for main components of the adjustments.

The Notes to the Financial Statements or an integral part of this statement.

HESPERIA COMMUNITY LIBRARY

Notes to the Financial Statements
For the Year Ended June 30, 2008

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Hesperia Community Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant policies:

1. REPORTING ENTITY

The purpose of the Hesperia Community Library is to provide library services to Newfield Township, Greenwood Township, Denver Township and the part of Beaver Township that is in the Hesperia Community School District. The Library's Board consists of eight appointed board members.

The financial statements include all activities of the Library. There are no governmental departments, agencies, institutions, commissions, public authorities or organizations within the Library, which its appointed officials may exercise oversight responsibility, that have been excluded. Oversight responsibility is considered to be derived from the Library's power and includes, but is not limited to, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability of fiscal matters.

Also, using the same criteria above, the Library's financial statements include the accounts of all Library operations.

2. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major and non-major funds).

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts-investing in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The effect of interfund activity has been eliminated from the government-wide financial statements. Also, there are no fiduciary funds included in the government-wide statements.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this

purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments, are record only when payment is due.

Property taxes, State Shared Revenue, Penal Fines and interest are considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Deferred revenues arise when resources are received by the Library before it has met all of the eligibility requirements imposed by the grantor or provider.

The Library reports the following major governmental funds:

General Fund - This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the library. Revenues are derived primarily from intergovernmental activities.

Debt Service Fund - Debt Service Funds are used to account for the accumulation of resources for and the payment of general long-term debt principal, interest and related costs.

In addition, the Library reports the following non-major fund:

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities which are not financed by proprietary or trust funds.

3. CAPITAL ASSETS

Capital assets are defined by the Library as assets with an initial cost of more than \$25 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance that do not add to the value of the asset or materially extend assets lives are expenses as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and Improvements	10 - 50 Years
Furniture and Equipment	5 - 20 Years
Library Books and Materials	3 - 10 Years

4. PROPERTY TAXES

Property taxes are levied on December 1st based on the taxable valuation of the property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year. The Townships and Village bill and collect the property taxes.

5. CASH AND EQUIVALENTS

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments, if any, with original maturities of three months or less from date of acquisition.

Notes to the Financial Statements (Continued)

6. USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

7. PREPAID EXPENSES

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

8. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

9. FUND EQUITY

that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subjective to change.

NOTE B STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The General Fund is under formal budgetary control. The budget shown in the financial statements for this fund was prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consists only of those amounts contained in the formal budget approved and amended by the Board.

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2008, the Library did not incur expenditures in excess of the final amended budget in the general fund.

In the body of the financial statements, the Library's actual expenditures and budgeted expenditures for the budgetary fund has been shown on a functional basis. The approved budget for this budgetary fund was also on a functional basis.

NOTE C DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Library to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Library is allowed to invest in bonds, securities and other direct obligations

Notes to the Financial Statements (Continued)

of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Library's funds are held at Shelby State Bank and are carried at cost. At June 30, 2008, they consisted of the following:

	Carrying Value	Market Value
General Fund		
Cash on Hand	\$ 50	\$ 50
Money Market - Shelby State Bank	332,431	334,069
CD's - Shelby State Bank	13,500	13,500
Total General Fund	345,981	347,619
Debt Service Fund		
Money Market - Shelby State Bank	50,553	50,553
Total Deposits	<u>\$ 396,534</u>	<u>\$ 398,172</u>
FDIC Insured		\$ 13,500
Money Market Funds		384,622
Uninsured		50
Total Deposits		<u>\$ 398,172</u>

Investments are normally categorized to give an indication of the level of risk assumed by the Library; however, money market funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investment in the funds comply with the investment authority noted above.

The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Library evaluates each financial institution with which it deposits Library funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

NOTE D DUE FROM OTHER GOVERNMENTAL UNITS / DEFERRED REVENUE

Due from Other Governmental Units

Receivables at June 30, 2008 consisted of the following:

Newaygo County - Penal Fines	\$ 10,098
Oceana County - Penal Fines	27,874
Total Due from Other Governments	<u>\$ 37,972</u>

Notes to the Financial Statements (Continued)

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Grants	\$ -	\$ 32,639

NOTE E CAPITAL ASSETS

Capital asset activity of the primary government of the current year was as follows:

	7/1/2007			6/30/2008
Governmental Activities	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
Capital Assets not Being Depreciated:				
Land	\$ 120,000	\$ -	\$ -	\$ 120,000
Capital Assets Being Depreciated:				
Library Collection	372,863	58,140	(24,104)	406,899
Buildings & Improvements	1,320,918	752	-	1,321,670
Equipment & Furniture	230,995	3,074	-	234,069
Computers	55,153	545	-	55,698
Total at Historical Cost	1,979,929	62,511	(24,104)	2,018,336
Less Accumulated Depreciation:				
Library Collection	(282,338)	(44,648)	24,104	(302,882)
Buildings & Improvements	(206,831)	(38,833)	-	(245,664)
Equipment & Furniture	(136,207)	(18,747)	-	(154,954)
Computers	(43,086)	(3,470)	-	(46,556)
Total Accumulated Deprec.	(668,462)	(105,698)	24,104	(750,056)
Net Capital Assets				
Being Depreciated	1,311,467	(43,187)	-	1,268,280
Total Governmental Activities				
Capital Assets-Net of Deprec.	<u>\$ 1,431,467</u>	<u>\$ (43,187)</u>	<u>\$ -</u>	<u>\$ 1,388,280</u>

Depreciation expense for the year ended June 30, 2008 is \$105,698.

Notes to the Financial Statements (Continued)

NOTE F CHANGES IN LONG-TERM DEBT

A summary of the Library's long-term debt outstanding at June 30, 2008 is as follows:

	Balance 7/1/2007	Net Borrowings (Payments)	Balance 6/30/2008	Amounts Due Within One Year
Bonds Payable - Due in annual installments of \$30,000 to \$120,000 through May 2021; interest payable semiannually at 3.0% to 4.75%	\$ 1,285,000	\$ (60,000)	\$1,225,000	\$ 65,000

Debt Service Requirements

The annual requirements to amortized all debt outstanding at June 30, 2008 including both principal and interest are as follows:

Year Ended June 30	Bonds Payable		
	Total	Principal	Interest
2009	121,870	65,000	56,870
2010	124,270	70,000	54,270
2011	126,400	75,000	51,400
2012-2016	498,214	450,000	48,214
2017-2021	799,649	565,000	234,649
Total	<u>\$ 1,670,403</u>	<u>\$ 1,225,000</u>	<u>\$ 445,403</u>

Interest expense of the Library for the year ended June 30, 2008 amounted to \$59,210.

NOTE G ENDOWMENT FUND

The Fremont Area Community Foundation holds an endowment fund which has been earmarked for the Hesperia Community Library.

	<u>6/30/2008</u>	<u>6/30/2007</u>
Marian Rumsey Fund	\$ 31,915	\$ 43,898
Branstrom Fund	105,576	131,058
Hesperia Community Library Fund	474,797	589,176
	<u>\$ 612,288</u>	<u>\$ 764,132</u>

The Hesperia Community Library had an FACF match of \$418,665 for the Building.

NOTE H DESIGNATED FUND BALANCE

As of June 30, 2008 the board has designated \$220,211 for ongoing repair and maintenance needs for the library facilities.

Notes to the Financial Statements (Continued)

NOTE I INTERFUND BALANCES & TRANSFERS

Interfund Balances

	<u>Due To</u>	<u>Due From</u>
General Fund	\$ 2,298	\$ -
Debt Service Fund	-	2,298
Total	<u>\$ 2,298</u>	<u>\$ 2,298</u>

Interfund balances are due to property taxes from prior years.

NOTE J RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Library maintains commercial insurance coverage for each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Library. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE K RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and the net change in fund balance of the Library's governmental fund differs from net assets and the statement of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance - Modified Accrual Basis \$ 395,691

Amounts reported in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund statements. Amounts reported for governmental activities in the statement of net assets:

Governmental Capital Assets	2,138,336	
Governmental Accumulated Depreciation	<u>(750,056)</u>	1,388,280

Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund statements. Long-term liabilities reported in the statement of net assets that are not reported in the governmental statement of activities:

Bonds Payable	(1,225,000)
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Amounts Due From/To Other Funds Within Governmental Funds:

Due From Other Funds	(2,298)	
Due to Other Funds	<u>2,298</u>	-

Net Assets of General Fund - Full Accrual Basis \$ 558,971

Notes to the Financial Statements (Continued)

Net Change in Fund Balances - Modified Accrual Basis \$ 33,427

Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in the statement of revenues, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Library Books and Materials	58,140	
Capital Outlay	4,374	
Depreciation	<u>(105,698)</u>	(43,184)

Repayments of bond principal are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt)

60,000

Change in Net Assets of General Fund - Full Accrual Basis \$ 50,243

HESPERIA COMMUNITY LIBRARY

Required Supplementary Information Budgetary Comparison Schedule - General Fund For the Year Ended June 30, 2008

REVENUE	Budgeted Amounts		Actual	Variance to Final Budget
	Original	Final		
Local Sources				
Property Taxes	\$ 99,000	\$ 99,000	\$ 98,935	\$ (65)
Sales	500	500	842	342
Grants	-	-	28,048	28,048
Penal Fines	30,000	39,088	37,972	(1,116)
Charges for Services	3,000	3,000	3,835	835
Interest	7,500	7,500	8,857	1,357
Donations & Memorials	-	-	3,115	3,115
Other	500	500	757	257
Restricted Carryover*	54,848	54,848	-	(54,848)
Restricted New*	3,800	29,472	-	(29,472)
Maintenance Reserve*	7,000	7,000	-	(7,000)
Transfers In	-	-	-	-
Total Local Sources	206,148	240,908	182,361	(58,547)
State Sources - State Aid	-	-	4,393	4,393
Total Revenue	206,148	240,908	186,754	(54,154)
EXPENDITURES				
Personnel Services	83,512	87,012	84,657	2,355
Capital Outlay	56,278	82,039	33,572	48,467
Consumable Supplies	5,800	6,300	6,325	(25)
Services & Charges	59,058	63,057	55,284	7,773
Tax Chargebacks	1,500	1,500	1,040	460
Other	-	1,000	-	1,000
Transfers (Out)	-	-	-	-
Total Expenditures	206,148	240,908	180,877	60,031
Excess Revenue Over (Under) Expenditures	-	-	5,876	5,876
Fund Balance - July 1, 2007	-	-	336,964	336,964
Fund Balance - June 30, 2008	\$ -	\$ -	\$ 342,840	\$ 342,840

* Budget includes amounts from Fund Balance



Board Members,
Hesperia Community Library
Newaygo County,
Hesperia, MI

In planning and performing our audit of the financial statements of Hesperia Community Library as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Hesperia Community Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of Hesperia Community Library.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

Controls over the Selection and Application of Accounting Principles that are in Conformity with Generally Accepted Accounting Principles

The Board currently does not have personnel available with sufficient expertise to select and apply the accounting principles necessary to prepare the financial statements and note disclosures contained in the audit report.



Controls over Segregation of Accounting Duties

The small size of the Library's office staff and lack of segregation of duties creates the danger that intentional or unintentional errors could be made and not detected.

This communication is intended solely for the information and use of management, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Hendon & Slate, P.C.

Hendon & Slate, P.C.
Certified Public Accountants
January 26, 2009



January 26, 2009

To the Library Board
Hesperia Community Library

We have audited the financial statements of Hesperia Community Library for the year ended June 30, 2008, and have issued our report thereon dated January 26, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 24, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Hesperia Community Library. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Hesperia Community Library's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 24, 2008 and December 2, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Hesperia Community Library are described in Note A to the financial statements. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:



Management's estimate of the useful life of the capitalized assets for calculation of the depreciation of those assets which is based on the entity's knowledge of the assets. We evaluated the key factors and assumptions used to develop the estimated useful lives in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Uncorrected misstatements would have affected the Statement of Governmental Revenue, Expenditures and Changes in Fund Balance/Statement of Activities by approximately \$1,500. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The following material misstatements were corrected by management: adjust for beginning and ending receivables, payables, and deferrals, all normal transactions for adjusting from cash basis to modified accrual basis of accounting.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 26, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Hesperia Community Library
January 26, 2009
Page 3

Books & Records – Once again, the books and records of the Library were maintained in excellent condition.

This information is intended solely for the use of the Board of Directors and management of Hesperia Community Library and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Hendon & Slate, P.C.

Hendon & Slate, PC
Certified Public Accounts
Fremont Office